

LOAN NUMBER 2856 TU

Loan Agreement
(Energy Sector Adjustment Loan)

between

REPUBLIC OF TURKEY

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 29, 1987

LOAN AGREEMENT

AGREEMENT, dated June 29, 1987, between REPUBLIC OF TURKEY (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated May 22, 1987, from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's energy sector (the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in the financing of urgently needed imports required during such execution;

(B) the Borrower intends to make available a part of the proceeds of the Loan to certain public sector agencies and enterprises for purposes of carrying out investments in energyrelated activities;

(C) the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; and

(D) on the basis, inter alia, of the foregoing, the Bank has decided, in support of the Program and in order to assist in the carrying out of the Project, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement:

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "MENR" means the Borrower's Ministry of Energy and Natural Resources;

(b) "BOTAS" means Boru Hatlari ile Petrol Tasima, A.S., the Borrower's pipeline enterprise, a state economic enterprise, established and operating under Decree Law No. 233 published on June 8, 1984, and the Turkish Commercial Code as registered in the Commercial Registration Gazette dated August 15, 1974;

(c) "EIE" means Elektrik Isleri Etud Idaresi, the Borrower's electricity survey agency, established and operating under Law No. 2819 published on June 24, 1935;

(d) "GDPA" means Petrol Isleri Genel Mudurlugu, the Borrower's general directorate for petroleum affairs, established and operating under Law No. 6326 published on March 16, 1954;

(e) "MTA" means Maden Tetkik ve Arama Genel Direktoru, the Borrower's minerals exploration agency, an agency of MENR, established and operating under Law No. 2804 published on June 22, 1935;

(f) "POAS" means Petrol Ofisi, the Borrower's petroleum products distribution enterprise, a state economic enterprise, established and operating under Decree Law No. 233 published on June 8, 1984, and the Turkish Commercial Code as registered in the Commercial Registration Gazette dated November 24, 1983;

(g) "TEK" means Turkiye Elektrik Kurumu, the Borrower's electricity enterprise, a state economic enterprise, established and operating under statutes published on November 9, 1984, in accordance with Decree Law No. 233 published on June 8, 1984;

(h) "TKI" means Turkiye Komur Isletmeleri Kurumu, the Borrower's lignite enterprise, a state economic enterprise, established and operating under statutes published on November 27, 1984, in accordance with Decree Law No. 233 published on June 8, 1984;

(i) "TPAO" means Turkiye Petrolleri, A.O., the Borrower's petroleum exploration and development enterprise, a state economic enterprise, established and operating under statutes published on November 9, 1984, in accordance with Decree Law No. 233 published on June 8, 1984;

(j) "TTK" means Turkiye Taskomuru Kurumu, the Borrower's hard coal enterprise, a state economic enterprise, established and operating under statutes published on December 11, 1984, in accordance with Decree Law No. 233 published on June 8, 1984;

(k) "TUPRAS" means Turkiye Petrol Rafinerileri, A.S., the Borrower's refineries enterprise, a state economic enterprise, established and operating under Decree Law No. 233 published on June 8, 1984, and the Turkish Commercial Code as registered in the Commercial Registration Gazette dated April 16, 1983;

(l) "Public Sector Agencies and Enterprises" means, collectively, the agencies and enterprises referred to in paragraphs (a) through (k) of this Section;

(m) "State Economic Enterprises" means, collectively, BOTAS, POAS, TEK, TKI, TPAO, TTK and TUPRAS;

(n) "DSI" means Devlet Su Isleri, the Borrower's general directorate for state hydraulic works, an agency of the Ministry of Public Works and Resettlement, established and operating under Law No. 6200 published on December 25, 1953;

(o) "Public Participation Fund" means the fund of the Borrower established and operating under Law No. 2883 published on December 25, 1983;

(p) "Subsidiary Loan Agreements" means the agreements as may be entered into between the Borrower and the State Economic Enterprises pursuant to Section 3.03 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreements;

(q) "SITC" means the United Nations Standard International Trade Classification, 1974 Revision (SITC, Rev. 2), published in Commodity Indexes for the Standard International Trade Classification, Revised, Statistical Papers, Series M, No. 38/Rev.2 (1981);

(r) "Turkish Lira" means the currency of the Borrower;

(s) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(t) "fiscal year" means the period January 1 through December 31.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to three hundred twenty five million dollars (\$325,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in its Central Bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 1990 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for

each Interest Period equal to one-half of one percent (1/2 of 1%) per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 5 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

Section 3.03. (a) For the purposes of carrying out Part B of the Project: (i) the Borrower shall make available a portion of the proceeds of the Loan allocated to such Part B of the Project to the Public Sector Agencies; and

(ii) in the event the Borrower shall re-lend a portion of proceeds of the Loan allocated to such Part B of the Project to the State Economic Enterprises, the Borrower shall do so under subsidiary loan agreements to be entered into between the Borrower and each such State Economic Enterprise, under terms and conditions satisfactory to the Bank which shall include:

(A) a rate of interest at least equal to the rate of interest applicable from time to time to the Loan pursuant to the provisions of Section 2.05 of this Agreement; and

(B) provision for the principal amount to be repaid by the State Economic Enterprise to the Borrower to be the equivalent in Turkish Lira (determined as of the respective dates of repayment) of the dollar equivalent (determined as of the respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the currency or currencies withdrawn from the Loan Account or paid out of the Special Account on account of expenditures by each State Economic Enterprise for Part B of the Project.

(b) The Borrower shall exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any of the Subsidiary Loan Agreements or any provision thereof.

Section 3.04. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.05. The Borrower shall, not later than October 31 of each year, (a) review with the Bank the proposed annual energy investment program and related financing plan for the energy sector for the next succeeding year, and (b) agree with the Bank on the goods and services to be financed out of the proceeds of the Loan allocated to Part B of the Project during such year.

Section 3.06. The Borrower shall, not later than May 1, 1988, furnish to the Bank for review and comment the study on the operating practices and policies of TKI and the measures to be taken to improve the operational efficiency of TKI.

ARTICLE IV

Financial Covenant

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Loan.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than five months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have

reasonably requested; and

- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audits referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. Except as the Bank shall otherwise agree, the Borrower shall cause TEK to employ, by October 31, 1987, independent auditors acceptable to the Bank.

Section 4.03 (a) Except as the Bank shall otherwise agree, the Borrower shall cause TEK to maintain a ratio of current assets to current liabilities of not less than 1:1.

(b) Before October 31 in each of its fiscal years, the Borrower shall cause TEK, on the basis of forecasts prepared by TEK and satisfactory to the Bank, to review whether TEK would meet the requirements set forth in paragraph (a) in respect of such fiscal year and the next following fiscal year and shall furnish to the Borrower and the Bank the results of such review upon its completion.

(c) If any such review shows that TEK would not meet the requirements set forth in paragraph (a) for TEK's fiscal years covered by such review, the Borrower shall cause TEK promptly to take all necessary measures in order to meet such requirements.

(d) For the purposes of this Section:

- (i) the term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses

properly chargeable to operating expenses within the next fiscal year;

- (ii) the term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends;
- (iii) the term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of debt; and
- (iv) whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.04. (a) Except as the Bank shall otherwise agree, the Borrower shall cause TEK, starting in the 1988 fiscal year, to produce funds from internal sources equivalent to not less than 35% for each fiscal year of the annual capital expenditures incurred, or expected to be incurred, for power projects by TEK and by DSI during the fiscal year concerned.

(b) Before October 31 in each of its fiscal years, the Borrower shall cause TEK, on the basis of forecasts prepared by TEK and satisfactory to the Bank, to review whether TEK would meet the requirements set forth in paragraph (a) in respect of such fiscal year and the next following fiscal year and shall furnish to the Borrower and the Bank a copy of such review upon its completion.

(c) If any such review shows that TEK would not meet the requirements set forth in paragraph (a) for TEK's fiscal years covered by such review, the Borrower shall take or cause TEK to promptly take all necessary measures in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "funds from internal sources" means the difference between:
 - (A) the sum of revenues from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net non-operating income and any reduction in working capital other than cash; and
 - (B) the sum of all expenses related to operations including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation, other non-cash operating charges and income taxes), debt service

requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflow other than capital expenditures, excluding payments made by TEK to the Borrower's Public Participation Fund.

- (ii) The term "net non-operating income" means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (iii) The term "working capital other than cash" means the difference between current assets, excluding cash and current liabilities at the end of each fiscal year.
- (iv) The term "current assets excluding cash" means all assets other than cash which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
- (v) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes, and payments in lieu of taxes, and dividends.
- (vi) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of debt.
- (vii) The term "capital expenditures" means all expenditures by TEK and DSI incurred on account of fixed assets, including interest charged to construction, related to operations.
- (viii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

ARTICLE V

Additional Event of Suspension

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) an event has occurred which shall make it improbable that the Program, or a significant part thereof, will be carried out; and

(b) Decree Law No. 233 of the Borrower published on June 8, 1984, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the State Economic Enterprises to carry out investments in energy-related activities and technical assistance under Part B of the Project.

ARTICLE VI

Termination

Section 6.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Undersecretary of the Treasury and Foreign Trade of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Basbakanlik
Hazine Ve Disticaret
Mustesarligi
Mithatpasa Caddesi No. 18
Yenisehir, Ankara
Republic of Turkey

Cable address: Telex:

MALIYE	821-42285 (MLYE-TR)
Hazine, Ankara	821-42689

or
(ANK-TR)

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address: Telex:

INTBAFRAD	440098 (ITT),
Washington, D.C.	248423 (RCA) or
	64145 (WUI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective

names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF TURKEY

By /s/ Hi Kmet Mugbay

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Hans-Eberhard Kopp

Acting Regional Vice President
Europe, Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amount of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category.

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditure to be Financed
(1) Goods (other than foreign goods for Part B of the Project)	175,000,000	100% of expenditures
(2) Goods and services foreign described in Annex 2 and to this Schedule for local Part B of the Project	150,000,000	100% of expenditures (ex-factory cost) for goods and 100% of expenditures for consultants' services

TOTAL 325,000,000

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) expenditures in respect of Category (1) for goods included in the SITC groups or sub-groups set forth in Annex 1 to this Schedule;

(b) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of \$25,000,000, may be made on account of payments made for expenditures in respect of Category (1) before that date but after February 1, 1987;

(c) expenditures in respect of Category (1) for goods procured under contracts costing less than \$50,000 equivalent;

(d) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Bank shall have financed or agreed to finance; and

(e) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption.

4. No withdrawal shall be made and no commitment shall be entered into to pay amounts to the Borrower or others in respect of expenditures to be financed out of the proceeds of the Loan after the aggregate of the proceeds of the Loan withdrawn from the Loan Account under Category (1) and the total amount of such commitments shall have reached the equivalent of \$75,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.02 of this Agreement:

(a) with the progress achieved by the Borrower in the carrying out of the Program; and

(b) with the progress achieved with respect to the actions described in Schedule 5 to this Agreement.

5. If, after such exchange of views, the Bank is not so satisfied and this situation shall not be rectified by the Borrower within ninety (90) days after notice thereof by the Bank, then the Bank, by notice to the Borrower, may cancel the amount of the Loan unwithdrawn from the Loan Account or any part thereof.

ANNEX 1 TO SCHEDULE 1

Group	Sub-group	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured tobacco refuse
122	-	Tobacco, manufactured
667	-	Pearls, precious and semi-precious stones, unworked or worked
688	-	Uranium depleted in U235 and thorium, and their alloys, unwrought or wrought, and articles therefor, n.e.s.; waste and

		scrap of uranium depleted in U235 and of thorium
718	718.7	Nuclear reactors, and parts thereof, n.e.s.
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares, (including set gems)
-	971.0	Gold, non-monetary (excluding gold ores and concentrates)

ANNEX 2 TO SCHEDULE 1

Public Sector Agencies and Enterprises	Subsector	Description of Goods and Services
(1) MENR	Energy	Technical assistance, computer hardware, software
(2) TEK	Electricity	Transmission, distribution, equipment, machinery, rehabilitation, generating plant and intermediate goods and equipment
(3) EIE	Conservation	Technical assistance, training, energy audits, retrofitting
(4) TUPRAS	Refineries	Technical assistance, refinery modernization and upgrading and intermediate goods and equipment
(5) POAS	Petroleum	Production and transport equipment and intermediate goods and equipment
(6) BOTAS	Pipelines	Telecommunication and telecontrol equipment, spare parts, specialized vehicles and intermediate goods and equipment
(7) TPAO	Oil explo- ration	Casing, chemicals, spare parts, consumables, technical assistance and intermediate goods and equipment
(8) GDPA	Oil/gas policy	Technical assistance, computer hardware, software and

		intermediate goods and equipment
(9) TKI	Lignite	Spare parts, retrofitting, plant rehabilitation, modernization and intermediate goods and equipment
(10) TTK	Coal	Washer replacements and intermediate goods and equipment
(11) MTA	Mineral exploration	Special vehicles, spare parts, chemicals, drilling equipment and intermediate goods and equipment

SCHEDULE 2

Description of the Project

The objectives of the Project are to support the Borrower's program for the adjustment of the energy sector and to support the Borrower's 1987 through 1989 public investment program for the energy sector.

The Project consists of the following parts, subject to such modifications thereof as the Bank and the Borrower may agree from time to time to achieve such objectives.

Part A: Energy Sector Adjustment Program

The carrying out of a program to strengthen the institutional framework for the energy sector, to ensure an economic investment strategy for the sector and to improve the efficiency of the agencies, institutions and other entities in the energy sector through operating efficiencies, economic pricing policies, rational investment planning and conservation measures and the purchase of urgently needed imports required during the carrying out of the Program.

Part B: Energy Investments

The carrying out of investments in energy-related activities and the technical assistance referred to in Annex 2 to Schedule 1 to this Agreement.

* * *

The Project is expected to be completed by December 31, 1989.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each May 15 and November 15	
beginning November 15, 1991 through May 15, 2004	12,500,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than eleven years before maturity	0.65
More than eleven years but not more than fifteen years before maturity	0.88
More than fifteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods under Category (1) of Paragraph 1 of Schedule 1

1. Contracts for the procurement of goods estimated to cost the equivalent of \$15,000,000 or more each shall be awarded through international competitive bidding in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and in addition, in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Forum, Business Edition; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines:

"As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

2. Contracts for goods estimated to cost the equivalent of less than \$15,000,000 each shall be awarded on the basis of the normal procurement procedures of the purchaser of such goods.

3. Notwithstanding the provision of paragraph 2 hereof, contracts for commonly traded commodities may be awarded on the basis of the quotations available for organized international commodity markets.

4. With respect to each contract referred to in paragraph 1 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Bank shall reasonably request.

5. With respect to each contract referred to in paragraph 2 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect thereof, such documentation and information as the Bank may reasonably request to support withdrawal applications in respect of such contract.

6. Notwithstanding the provisions of paragraphs 4 and 5 of this Schedule, where payments under a contract are to be made out of the proceeds of the Special Account, the copies of such contract or the documentation and the information to be furnished to the Bank pursuant to the provisions of paragraph 3 or paragraph 4 of this Schedule, as the case may be, shall be furnished to the Bank as part of the evidence required under paragraph 4

of Schedule 6 to this Agreement.

7. The provisions of the preceding paragraphs 4, 5 and 6 shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure.

Section II. Procurement of Goods under Category (2)
of Paragraph 1 of Schedule 1

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in August 1984 (the Guidelines).

2. To the extent practicable, contracts shall be grouped in bid packages estimated to cost the equivalent of \$1,000,000 or more each.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Turkey may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

Computer hardware and software packages, which are estimated to cost less than the equivalent of \$100,000 per contract, up to an aggregate amount not to exceed the equivalent of \$250,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$1,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 (the Special Account Schedule) to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

2. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section III: Employment of Consultants

In order to assist the Public Sector Agencies and Enterprises in carrying out Part B of the Project, the Public Sector Agencies and Enterprises shall employ energy consultants as may be necessary whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Actions Referred to in Paragraph 4 (b) of Schedule 1 to this Agreement

(a) Carrying out of the work program of the regulatory body of MENR, including the development of computerized procedures for pre-feasibility screening and appraisal of projects; and introduction of procedures for analyzing leasing and operating agreements.

(b) Carrying out of an independent financial audit of TEK's records and accounts starting with its 1988 fiscal year.

(c) Strengthening of TEK's Board of Directors to enable it to assume its role as an effective policy making body and overseer of TEK's management.

(d) Preparation of the subsector plans for electric power, natural gas and refineries.

(e) Introduction of a new refinery formula designed to provide economic incentive to optimize operating and investment decisions by linking product prices to their international market value.

(f) Introduction of a new tariff structure on the basis of voltage level in order to simplify the tariff structure, and the introduction of time-of-day pricing.

(g) Carrying out of an energy conservation program, including the preparation of energy audits of industrial plants for potential investments to improve energy efficiency.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required during the execution of the Project and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this

Agreement; and

(b) the term "Authorized Allocation" means an amount equivalent to \$50,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. Each such deposit shall be withdrawn by the Bank from the Loan Account in the respective equivalent amounts as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

- (i) the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of paragraph (a) of Section 2.02 of this Agreement; or
- (ii) the total unwithdrawn amount of the Loan, minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to

the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount for crediting to the Loan Account.

